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Integrating Business Opportunities in an Emerging Asian Economy: Perspectives from Singapore's Gambit in Vietnam

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"INTEGRATING BUSINESS OPPORTUNITIES IN AN EMERGING ASIAN ECONOMY: PERSPECTIVES FROM SINGAPORE'S GAMBIT IN VIETNAM"

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ABSTRACT

To date, Singapore's regionalization strategy has been applied in China, India, Indonesia and Vietnam through the establishment of industrial parks. The nexus between these 'clones' is the implantation of Singapore's positive business ethos amidst more uncertain host environments. Leveraging on world-class infrastructure, efficiency and location-specific advantages, these industrial parks present themselves as low-cost investment enclaves. This paper[1] focuses on the regional industrial development project assembled, administered and promoted by the sovereign national governments of Singapore and Vietnam. Using in-depth case studies, it examines the push-pull factors for firms with different structures. It finds that progress in this privileged foreign investment zone remains stymied by particular challenges and dependencies.

Key words: Regionalization - Industrial Parks - Singapore – Vietnam

INTRODUCTION

The city-state of Singapore has continually sought to overcome its resource limitations by extending its economic hinterland beyond its national boundaries. Singapore's global outreach, supported by constant economic reform and its competitive strengths, has allowed it to achieve remarkable economic growth in a relatively short span of time. To fuel economic development, the city-state began to make deliberate efforts to woo foreign investors with low-labor costs in the mid-1960s [4].This influx of investment remained the engine of growth until cheaper manufacturing locations that emerged in developing Asian countries eroded Singapore's competitive edge. Subsequently, the government initiated a major industrial restructuring, which saw Singapore transforming itself into a hub for MNEs engaged in higher value-added manufacturing activities. By the late 1980s, Singapore boasted world-class infrastructure, an educated and highly skilled workforce and excellent business support. After a major recession in the mid-1980s exposed Singapore's vulnerability arising from its over-dependence on foreign capital, government strategy began to shift its focus from drawing foreign investment to encouraging local firms to venture into the region and develop an 'external wing' [21]. Henceforth, Singapore embarked on its regionalization program.

Capitalizing on the liberalization of foreign investment controls and high growth rates in the Asian region, Singapore looked to develop its 'external wing' by investing in countries across Asia [12]. Singapore's regionalization program involved the establishment of industrial parks in emerging economies in the Asian region which replicated the business environment found in Singapore [14] [18]. These industrial parks were marketed as a propitious synergy of location-specific advantages and Singapore's strengths in infrastructural development and management. The industrial parks were established, based on the belief that they would allow Singapore-based MNEs to maintain access to low-cost, resource-abundant centers for their resource-dependent operations, while conducting higher value-added operations in Singapore. Singapore's conduciveness for high-end operations and its strategic links to low-cost centers in the region would then make it an attractive hub for global corporations.

VIETNAM-SINGAPORE INDUSTRIAL PARK

The Vietnam-Singapore Industrial Park is Singapore's flagship industrial park project in Vietnam. First proposed in March 1994 by the then Vietnamese Prime Minister, Vo Van Kiet, and Singapore's Prime Minister, Goh Chok Tong, VSIP was officially launched in 1996 [5]. As with earlier projects, such as the Batamindo Industrial Park (BIP) in Indonesia and the Suzhou-Wuxi experiments in China, Singapore looked to 'export' and synergize its efficient infrastructure and management expertise with competitive cost structures arising from location-specific resources in another Asian environment [1] [14].

VSIP is located in Bin Duong Province, 17 km north of Ho Chi Minh City, and within a 40-minute drive from the international airport and seaports. The self-contained 1000-hectare park boasts a comprehensive suite of facilities such as prepared land plots, ready-built factories, and an on-site customs unit which allows for customs procedures and documentation to be done within the Park, as well as customs inspections within the tenant's factories. Tenants also have access to a ready pool of low-cost labor from a 200,000 working population available within a 15-km radius [20]. In addition, the Vietnam-Singapore Technical Training Centre (VSTTC) provides skilled manpower. Established in 1998, VTTSC is an S$9.5 million three-way project between the Singapore and Vietnam governments and VSIP. For the first five years of VTTSC's operations, VSIP was given priority for its graduates. These facilities are further complemented by Singapore management know-how and quality infrastructural support, allowing VSIP to offer convenient, 'one-stop' service to its tenants.

In addition, to incorporate lesson learnt from its industrial park projects in China – hampered progress during their development phase due to uneven distribution of ownership and responsibility and insufficient identity of interest between the working parties on the ground [19] – Singapore made deliberate efforts to foster strong collaboration with local authorities. VSIP is jointly developed by a Singapore consortium led by SembCorp Industries[2] and Becamex, a Vietnamese state-owned enterprise. The former holds a controlling stake of 51%. To prevent the perception that the VSIP was a partnership imposed upon by the central government, A Management Board[3], chaired by the Vice Chairman of the Binh Duong Province People's Committee, was established at the inception of the park.

Prior to the launch of VSIP in May 1995, a total of 13 international companies with investments worth US$80 million reportedly indicated their interest in the Park [1]. These pioneer tenants include 3M, Sandoz, Sakata Inx, Godrej (India), Liwayway Food Industries (Philippines) and a mix of Singapore manufacturers like ST Automotive, Star Chemicals and Hwa Hup. Many companies have acknowledged the Singapore Economic Development Board's efforts to market the park and assist tenants in their set-up process. By 1998, investments from the 30 tenants in VSIP amounted to US$370 million. In the following year, VSIP saw an increase of tenants to 33, with aggregate investment exceeding US$400 million. Then, VSIP had tenants from 10 different countries, investing in a wide range of industries, including food, electrical and electronics, pharmaceuticals and healthcare, specialty materials, consumer goods and light industries. Today, investment commitments in VSIP are valued at over US$600 million from 124 tenants, 80 of which are in operation. 24,000 jobs have been created, with the number expected to rise to 40,000 (Table 1). Net profit for 2003 stood at US$4 million and is likely to increase to at least US$6million in 2004 [3].

TABLE 1: VIETNAM-SINGAPORE INDUSTRIAL PARK OPERATIONAL STATISTICS (SEPTEMBER 2003)

General Information	
Investment by Developer	US$600 million
Committed Tenants	124
Area Taken Up	300 hectares
Investment by Tenants	> US$1 billion
Annual Export Value (for 2002)	> US$2 billion
No. of Employees	24,000

Source**:** SembCorp Parks Management.

VSIP has a list of 'priority' industries, which adheres closely to the official list of preferred industries[4]. However, these priorities industries in VSIP are not meant to complement Singapore's economic development. Hence, VSIP is less selective of target industries, as can be observed from the diverse mix of tenants. The sector mix ranges from electronics to light industries to pharmaceuticals (Table 2) while the tenant mix reflects the importance of Asian MNEs (Table3).

TABLE 2: VIETNAM-SINGAPORE INDUSTRIAL PARK
TENANT PROFILE BY SECTOR (SEPTEMBER 2003)

Sector	Percent	Sector	Percent
Electronics	11	Consumer goods	14
Food	9	Logistics	14
Light industries	20	Parts and components	10
Pharmaceuticals	9	Others	13

Source**:** SembCorp Parks Management

TABLE 3: VIETNAM-SINGAPORE INDUSTRIAL PARK
TENANT PROFILE BY COUNTRY OF ORIGIN (SEPTEMBER 2003)

Country	Percent
Singapore	24
Japan	21
Taiwan	17
Other Asian Countries	22
US and Europe	16

Source**:** SembCorp Parks Management.

THEORETICAL CONSIDERATIONS

Dunning's eclectic paradigm [6] [7] [8] [9] proffered an analytical framework to examine the pattern and extent of activities of firms engaged in value-added activities beyond their national boundaries. It sought to explain the ability and willingness of firms to serve markets and delve into the reasons behind their choice of exploiting this advantage through foreign production rather than domestic production, exports or portfolio resource flows. The eclectic paradigm postulates that foreign investment will only occur if it is advantageous to combine spatially transferable intermediate products produced in the home country, with at least some immobile factor endowments or other intermediate products in another country [8]. Specifically, the configuration of ownership-specific advantages, internalization-incentive advantages, and location-specific advantages (OLI) determines international production and its nature.

The framework goes on to assert that the import of each advantage in the OLI triumvirate and the relationship between them varies across firms, industries and countries and is context-specific. What is common in most firms, however, is the acquisition of the O advantages through exploitation of firm-specific resources, and the simultaneous procurement of I advantages through the diminution of transaction costs. As firms' core competencies become increasingly knowledge-intensive, MNEs seek locations (economic and institutional facilities) that best utilize their core competencies.

More recent literature has widened the ambit of the eclectic paradigm to include deliberations on the role of infrastructure in the attraction of new investments [13]; the presence of immobile clusters of complementary value-added activities [11], and the transactional benefits of spatial proximity [17].

Theories, from the perspective of the firm, have further argued that not only should the production process be viewed as a value chain [10] [15] [16] [17], but also, firms should identify comparative or location-specific advantages unique to each country/territory, which will serve to complement the competitive and firm-specific advantages specific to their core functions. Furthermore, according to rationalization theory, firms should situate their operations in different locations to capitalize on the comparative advantages offered in each location. Singapore's involvement in VSIP represents an effort to synergize superior infrastructure and efficient and transparent management practices, with the location-specific advantages of Vietnam. The underlying intention is to create an enclave, within a more uncertain environment, where firms can exploit location-specific advantages with greater ease and security.

VSIP aims to provide location-specific advantages for firms with manufacturing operations, particularly those that look to gain easier access to the Vietnamese and neighboring markets. The Park offers abundant unskilled labor and other local resources at low cost, and proximity to target markets. These pull factors are enhanced and strengthened by world-class infrastructure within the park, strong commitment and support from the local authorities and growing bilateral economic cooperation between Singapore and Vietnam. The envisaged product of this combination is an industrial park, distinct amidst the competition, which presents itself as attractive investment enclave.

EMPIRICAL FINDINGS

Case Studies

To gain deeper insight into our study, and a micro perspective on the dynamics behind the decisions of tenants from various kinds of firms, we present case studies of four selected firms in VSIP (Table 4).

TABLE 4: SUMMARY INFORMATION OF CASE STUDY FIRMS

Company	Country	Industry	Employee Strength
A	India	Pharmaceuticals	Less than 50
B	France	Electronics	Less than 50
C	Singapore	Paper Products	More than 100
D	Philippines	Snack Foods	More than 600

Case A – Pharmaceuticals

Company A is a wholly Indian-owned pharmaceutical manufacturer in VSIP. In terms of the production of pharmaceutical products, India is often regarded as second only to the United States.

Recognizing the immense potential and minimal competition in the Vietnam market, the company entered Vietnam in the early 1990s. Despite the company's venture into the country in 1994, it only sited its manufacturing operations in VSIP in 1999. Actual production began shortly after the company entered VSIP. Presently, the facility has less than 50 employees.

Apart from access to the domestic market, the company selected VSIP because of the world-class infrastructure provided by the 'Singapore-styled' park, such as water supply that met international standards. Furthermore, operating from VSIP allows the company to bypass the regulatory barriers it faced previously. It can now import machinery and raw materials like chemicals with greater ease. The company also cites the proactive park administration as a pull factor. The park administration has helped the company solve its problems, one of which is the recruitment of skilled personnel.

On the other hand, Company A does face constraints in production. First, it experiences delays due to difficulties in obtaining various licenses, permits and inspections before production can commence. This may be partly due to the nature of their products. The main problem Company A faces is labor-related. While there is an abundant pool of low-cost low-skilled labor, there is a shortage of skilled personnel. To increase the level of training for its employees and also circumvent the lack of training facilities for pharmaceutical manufacturing, the company regularly flies in skilled technicians from India to provide training for the operation of technologically advanced machines. Consequently, the company has been forced to pay wages that are even higher than that in India and is likely to continue with a small workforce.

Case B – Electronics

Company B is a French based global leader in manufacturing electrical equipment. The company's main clients come from the field of energy, industry, infrastructure and construction. It has over 70,000 staff in 130 countries over 5 continents. Currently, it has three operations in Vietnam, representative offices in Ho Chi Minh City and Hanoi, and the manufacturing facility in VSIP. The company hopes to participate in local contracts and projects through its domestic presence.

Company B established operations in VSIP in 1999. Since then, it has maintained a small facility with less than 50 employees. The operations in Vietnam target mainly the domestic market, with some exports to the rest of the ASEAN.

While low-skilled labor is readily available at low cost in Vietnam, managerial professionals, as well as research and development personnel are scarce. This made the company's efforts to expand existing operations through increasing product offerings, above the current range of switchgears to circuit breakers, more difficult. VSIP was able to improve this situation somewhat, by providing graduates from VSTTC. These graduates are generally preferred to others because they are better trained. The extensive use of Vietnamese also poses a constraint for Company B. As changes in government policies are made in Vietnamese, the company finds difficult to relate them to current business operations. Furthermore, this creates the perception that government policies are relatively unfriendly to foreigners.

Despite these issues and the premium charged by VSIP, the company is considering expansion in its existing location in VSIP to increase its business volume. This is due to the high sunk costs incurred in setting up current operations that have made moving to another location too costly.

Case C – Paper Products

Company C is a wholly Singapore owned firm, with its parent company publicly listed in Singapore. The company manufactures paper products, such as paper for cigarettes and carton boxes. Currently, it has five factories in Vietnam, one of which is located in VSIP. The factories are strategically located across Vietnam to reduce transport costs and improve the company's distribution network. Together, the five manufacturing facilities allow the company to capture about 30% of the local market.

The decision to locate in VSIP was due to the Park's Singapore connection, as well as its proximity to Ho Chi Minh City, where Company C's marketing operations are situated. The VSIP operation employs over 100 employees and targets mainly the domestic market. Only about 30% of the products are exported, mostly to ASEAN.

World-class and reliable infrastructure, including stable power facilities was a major pull factor for Company C. Recently, however, the company experienced disruptions in power supply that proved to be quite costly. In response, it requested installing its own backup generators but was rejected. As such, what was initially a key pull factor has become a major constraint. In addition to unstable power supply, the company also faced difficulties in importing the machinery required for its operations, particularly older machines. As the production process is fairly automated, the company requires skilled workers to operate the machines. Despite paying above market rates of US$30, there is still a shortage of such skilled workers, and there is a trend towards high labor turnover rate.

Case D – Snack Foods

Company C is a leading snack food manufacturer based in the Philippines. Although still a family-owned business, it is aggressively expanding in Asia, taking on global brands such as Frito Lay's. Company C began constructing its factory in VSIP in 1997, and currently employs over 600 workers. Apart from manufacturing, the company engages in product development within its VSIP operations, such as product tasting by employees in the factory to suit local preferences. In addition, the company has an administrative and marketing operation in Ho Chi Minh City.

The decision to locate in Vietnam was made in 1996, when Vietnam still appeared politically unstable and backward. Unlike other investors, Company C was not deterred due to its prior experience with infrastructural problems faced by emerging economies. In addition, these problems were somewhat alleviated by the more reliable and quality infrastructure contained in VSIP.

Company C's operations can be considered one of the more successful amongst all those in VSIP. The company was able to turn a profit within its first year of operations, and currently has an annual turnover of over US$10 million. The operations in VSIP mainly serve the local market, with some exports to the Middle East, as well as to the rest of ASEAN. Partially completed products are also exported back to the Philippines.

Being one of the first-movers to enter the Vietnam snack food industry, the company has become the dominant snack food producer after successfully taking away market share from the small, inefficient domestic competitors. The company's success in garnering domestic market share in Vietnam is attributed to the efficient production methods, as well as its good relationships with distributors.

Although the Vietnamese market is comparatively younger, Company C's Vietnam operations have proved to be more profitable than its operations in its home-market. This is attributed to the low labor costs, which is approximately half of that in the Philippines, and, interestingly, the denomination of the currency, which allows the company to charge a higher price for some of its products in Vietnam.

Unlike many other tenants from VSIP, the company does not face serious industrial relations issues, despite its large number of employees. The main problems the company faces are external, such as distribution problems. The manufacturing facility in VSIP is the sole supplier meeting the needs of the entire domestic market. The poor road conditions in Vietnam, especially during rainy seasons, hamper the transportation of products.

DISCUSSION

Like its Chinese and Indonesian counterparts, VSIP was marketed as a low-cost manufacturing centre, supported by excellent, 'Singapore-styled' infrastructure and management expertise. This winning combination of pull factors was supposed to give the park an edge over its competitors. While our case studies show that the companies did choose to locate their operations in VSIP because they were attracted to the purported advantages, they also suggest that these supposed advantages have not always been a reality. Furthermore, the Park's limitations have restricted expansion and diversification of some operations. Overall, the case studies indicate that VSIP is primarily suited for manufacturing operations engaging low-skilled labor.

The key impetus driving the case study companies to locate in VSIP was easy access to the domestic market. As stated by Company B and Company C, greater proximity to the growing Vietnamese market and Ho Chi Minh City is crucial to because of the need to gain a strong foothold and overcome communication and transportation inefficiencies. The efficiency and transparency associated with 'Singapore-style' infrastructure and administration, together with the one-stop service offered were also significant deciding factors investment in the Park.

On the other hand, VSIP does have limitations in meeting its tenant's needs. As reflected by most of the case study companies, there is a shortage of manpower equipped with a higher set of skills. Although unskilled labor is in abundance at low-cost, managerial professionals and skilled workers required for sophisticated manufacturing operations or research and development are scarce. The VSTTC, though providing a trained labor pool, only offered fixed skill-sets that failed to cater to the diverse needs of the tenants. As such, many tenants have been forced to either incur higher cost to train locals and hire skilled professionals at a premium, or face voids in positions requiring labor expertise. This constraint has hindered some of the case study firms' efforts to expand operations to include activities higher up the value chain, resulting in the tendency for smaller operations for companies engaged in high-end manufacturing.

The less common constraints faced by the case study companies suggest VSIP's limitations in serving tenants from a spectrum of industries and its failure to deliver efficient infrastructure and administration. For instance, Company A, a pharmaceutical, cited difficulties in obtaining permits, licenses and inspections as a constraint, hinting insufficient support for higher-end manufacturing. Company C, producing paper products, raised the issue of unstable power supply and the delay and unwillingness on the part of park administration to resolve the problem. As such, it is arguable that VSIP has not lived up to its initial promise to provide reliable one-stop service within a self-contained environment.

Nevertheless, VSIP has managed to provide some purported location-specific advantages such as abundant, low-cost labor. Company D, for example, has enjoyed larger profits because of the competitive cost of unskilled manpower available in VSIP. It appears that VSIP is best suited for companies with labor-intensive operations as they can tap into the vast pool of unskilled labor and rely less on expensive capital. This could explain the predominance of firms engaging in low value-added, labor-intensive activities in VSIP. In this arena, the park remains competitive and continues to stand out from other locations.

ISSUES AND CHALLENGES

The Singapore-affiliated parks in Indonesia, India, China and Vietnam secured a definitive edge over their competitors due to the many exclusive and unprecedented privileges accorded to them by host institutions. VSIP, for example, was allowed to construct its own telecommunication facilities and power and water treatment plants. This on-site suite of facilities was further enhanced by the involvement of local government officials serving on VSIP's Management Board. They were instrumental in facilitating VSIP's easy access to investment approvals, construction activities, import/export permits and immigration matters. Furthermore, Singapore and Vietnam's robust bilateral economic ties, together with strategic partnerships between Singapore's government-linked companies (GLCs) and their Vietnamese counterparts, secured special treatment for the Park. For example, VSIP was able to transcend much bureaucracy and upgrade the park surroundings. Amidst an uncertain host environment, VSIP gained a reputation as an exceptional investment enclave, boasting reliable infrastructure and special concessions that facilitated establishment of operations. Nevertheless, a myriad of issues and challenges prevent VSIP from delivering the one-stop service and location-specific advantages it was designed to offer.

Erosion of Location-Specific Advantages

VSIP's initial advantages of reliable infrastructure facilities were quickly eroded due to improvements in the host environment. For example, the unstable national grid soon improved in terms of reliability, negating the benefits of the Park's independent power supply. In order to regain competitiveness, VSIP had to offer tenants the choice between the cheaper national grid and its more reliable power facility. The advantages conferred by VSIP's proximity to Ho Chi Minh City, as well as airports and seaports, were also dampened by the widening of the highway. Greater accessibility between VSIP and the capital city eventually resulted in congestion as the number of users increased. This led to toll fee collections and hence higher operating costs for the park's tenants.

Heightened Competition

After its inception, VSIP began to face increasing competition as smaller parks offering a similar range of services burgeoned in the area. These leaner competitors also offered access to the low-cost labor pool while leasing tenant space at much lower rates. Consequently, the high premium VSIP charged to sustain its higher maintenance costs became economically unjustifiable for its tenants. Heightened competition, exacerbated by rising overhead costs, has diminished the location-specific benefits that were supposed to give VSIP a definitive edge and is likely to mar its attractiveness vis-à-vis its potential investors.

Political 'Patronage'

While reliance on political patronage and personal connections has sometimes eased operations, it has also proved to be disadvantageous. The exclusive support and commitment extended by local authorities has not met initial expectations. Instead, VSIP has had to contend with additional miscellaneous costs associated with the upgrading of the Park's facilities. This issue is further compounded by a lack of transparency from local administrators and endemic corruption[5], hampering tenants' operations in VSIP.

Although deliberate efforts were made to avoid the problems faced in Singapore's parks in China, the same issues have surfaced in VSIP, albeit to a lesser extent. Our on-site interviews, conducted in August 2002, indicate tensions culminating from Singapore-styled management practices, as were the case in Suzhou and Wuxi. These strains in partnerships have resulted in incongruity in perception, miscommunication and delays, further compromising the competitiveness of VSIP.

CONCLUSION

Although the initial blueprints of VSIP as a privileged investment enclave in an uncertain context were promising, actual results have indicated their limitations and the early over-optimism over their outcome. While Singapore did successfully 'export' its expertise in infrastructure and administration, both 'software' and 'hardware' were subject to the social, political and economic environments in Vietnam. Given the shortage of skilled labor, endemic corruption and other limitations inherent in the host context, the maintenance of a world-class facility proved costly. Furthermore, the park has failed to provide a conducive environment for tenants looking to expand their operations to include high value-added activities. Even as a center best suited for labor-intensive low-end manufacturing, VSIP has to constantly seek new methods to distinguish itself amidst increasing competition. The less than optimal results of Singapore's industrial park project in Vietnam suggest that the underlying assumption that an investment enclave can exist, relatively isolated from the conditions in the host environment is unrealistic. Regardless of the privileges it enjoys, VSIP's success will, to some extent be dependent on external factors. Thus far, an array of indigenous conditions, alluded to in this study, have stymied the progress of this privileged foreign investment zone.

FOOTNOTES

[1] This paper and three accompanying studies are funded by the Wharton-SMU Research Centre, Singapore Management University.

[2] Other members of the consortium include Temasek Holdings, JTC International, UOL Overseas Investments, Salim's KMP Vietnam Investment, LKN Construction, Sembawang Engineering and Mitsubishi Corporation (http://www.sedb.com.sg).

[3] The Board, with representatives from the ministries of Trade, Finance and Interior, as well as the General Customs Department oversees the issue of investment licenses, import/export permits, and construction permits.

[4] Details are given in Circular No. 8, List of Encouraged, Limited and Prohibited Industries in Export Processing Zones and High-Technology Industrial Zones, issued on July 29, 1997.

[5] Transparency International, a global counter-corruption watchdog, ranks Vietnam as the second most corrupt country in South-East Asia (after Indonesia). The Vietnamese government itself recently estimated that light-fingered bureaucrats creamed off at least 20% of the infrastructure spending [2]

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